

THE LESSON

OF

GERMAN AND FRENCH FINANCE.

A REPLY TO THE N. Y. NATION.

BY

HENRY CAREY BAIRD.

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THE LESSON OF GERMAN AND FRENCH FINANCE.

TO THE EDITOR OF THE EVENING TELEGRAPH.

The article from *The Nation* on "The Lesson of German and French Finance," of which the following is a review, having been republished in the *Evening Telegraph*, and *The Nation* itself having declined to publish this letter, you will confer a favor upon me by finding a place for it in your columns.

H. C. B.

PHILADELPHIA, Sept. 18, 1876.

TO THE EDITOR OF THE NATION.

SIR: To me it seems, that a paper which assumes a tone of lofty superiority, such as does *The Nation*, should be, at least, tolerably accurate in its statements regarding important public questions. This you have wholly failed to be in your late article, "The Lesson of German and French Finance." Indeed, this inaccuracy is so marked as to show either that you are totally ignorant of the great facts in regard to this subject, or that you have intentionally suppressed them, in order to inculcate a lesson which cannot properly be drawn from them.

You say, "One of the most unhappy countries in Europe at this moment is Germany, and the reason of this unhappiness reveals in a striking way how little either victory in war or abundance of money can, of itself, do to bring about real national prosperity. Indeed, the lesson of Germany bears so pointedly on our own currency problem, that it would be fortunate for us if our inflationists could be got to look into it. . . . Germany received after the war with France an enormous sum—about \$1,000,000,000 in cash—which was suddenly added to the existing wealth of the country, and was taken from France."

Passing over the fact that the amount paid to Germany by France, including interest and other charges, was nearly, if not quite, \$1,100,000,000, we come to the question, What was it which Germany did actually receive? Was it "cash," which was "added to the existing wealth of the country," or was it partly cash and partly bills of exchange drawn in favor of the German Government upon, and payable by, the German people, who had received foreign merchandise? The highest estimate of the loss of the precious metals by France in the payment of the war fine of \$1,100,000,000 is \$240,000,000; but it is quite impossible to find any such sum in the French official figures. Adding

NOTE.—The article from *The Nation* will be found, in full, in the Appendix hereto.

\$100,000,000 of specie and bullion known to have been shipped directly by the French Government to the German Government, to the French tables of exports of gold and silver, it appears that France lost but \$139,629,930 in her intercourse with Germany from Jan. 1, 1871, to Dec. 31, 1874; and indeed M. Leon Say, the present Finance Minister of France, and the highest possible authority, estimates the total net loss at \$140,000,000. But Great Britain took temporarily some French *rentes*, since absorbed by France; and she sent to Germany between Jan. 1, 1871, and Dec. 31, 1874, \$110,000,000 more of gold and silver than she drew from her. Let it be assumed, although there is no good reason for so doing, that this all went on French account, and we find that Germany drew but \$250,000,000 of "cash" from these two countries in payment of the great indemnity or war-fine. That these figures are in excess of the *net amount* received from *the world at large* is apparent from the fact that the German official returns show a total net import of gold and silver from Jan. 1, 1872, to June 30, 1875 of but \$60,000,000. How then was the war-fine actually received? By the people almost wholly in foreign merchandise; the imports of which in excess of exports from Jan. 1, 1870, to Dec. 31, 1874, having been, according to the Bavarian *Vaterland*, \$1,132,000,000; by the government in bills of exchange *on its own people*, who paid *their cash* into the German treasury.* Certainly these bills, and the payment of them, made no "vast and sudden addition to the circulating medium of the country."

But you have wholly ignored all German legislation regarding the currency, and the practical carrying out of this legislation; such as the retirement of \$134,000,000 of bank notes under 100 marks, only partially substituted by notes of higher denominations; the demonetization of silver, and the retirement of \$118,000,000 of old silver coins up to the end of June last, while but \$63,500,000 of new ones had been coined; showing a contraction in the silver circulation alone, of \$54,500,000;

* HOW FRANCE GETS HER REVENGE.—The Germans never could have wrought out such a mode of revenge, so sure, so effective, and so mortifying as the French are wreaking on the German nation. The whole country is flooded with notices, pamphlets, and addresses from Bon Marché and all other leading houses in Paris, containing samples and prices of goods, fashions, models, etc., that are so much better, cheaper, and more tasteful than German works and goods, that scarce a woman, even if she have but one dress a year, does not order it from Paris. The Berlin merchants have protested, appealed to the national pride, and used every exertion to break up this ruinous competition, but even with submissive German women the one womanly weakness is too strong to yield. A pretty dress and a cheap dress are irresistible. A society is about to organize and petition the Crown Princess to be its ruling head, whose object is to banish French goods and French modes, and originate their own fashions.—*Chicago Journal of Commerce*, Sept. 21, 1876.

and finally, the locking up, by the government of \$30,000,000 in specie and bullion as a war-fund in the Julius-Tower at Spandau. It is true that up to July 1, 1876, \$351,780,000 of new gold coins had been coined,* but about 15 months ago it was estimated by a competent German authority that from \$75,000,000 to \$100,000,000 of these gold coins had then been melted or exported. But on the other hand, the law of Dec. 1875, places it in the power of the Executive to demonetize from \$100,000,000 to \$190,000,000 of old silver coin in one and two thaler pieces, and hangs as a threat above the heads of the German people, and their enterprises and industries.

The real difficulty from which Germany now suffers is a total destruction of confidence, not by reason of a "vast and sudden addition to the circulating medium of the country," but by the unrealized expectation of it, turned into an actual *monetary famine* by legislative enactments. The writer who ignores any of these elements in a discussion of German finance during the past five years, falsifies history, and attempts to mislead his readers.

I pass over your comments upon the sorry figure which Germany is said to play at the Centennial Exposition, with the remark that having built up its industrial power under the protective features of the Zollverein, and thus laid the foundations for a great empire, Germany has of late years been steadily following the lead of the free trade political economists, in whom *The Nation* believes. If her diversified industries are on the decline, it is nothing more than might have been looked for.

Turning now to France, we find you saying: "Now see what has happened. French exports and imports have never increased so rapidly and have never been so large in volume as during the past five years. . . . The volume of irredeemable paper has been so reduced as to bring it to par with gold, and to admit of preparations for specie resumption at an early date. . . ."

"In fact, the more the French reduce the volume of their currency, the more they seem to have; the more they play into the hands of 'the money power,' the more capital seems to find its way into the poor man's pocket."

Now what are the real facts in this case? The circulation of the Bank of France, which was, in June 1870, before the war, \$275,000,000, had by Nov. 1871, reached \$460,000,000, and the premium on gold was $2\frac{1}{2}$ per cent. But by the end of Jan. 1872 the circulation had been expanded to \$490,000,000, and the premium had *fallen* to 1 per cent. By the end of Oct. 1873 it had been further expanded to \$614,000,000, and yet the premium had *fallen to a still lower* and a merely nominal figure. Do

* "A large part of the metal, converted into gold marks, was bought either in England or in Germany itself."—M. WOŁOWSKI, *Journal des Economistes*, Dec. 1874.

these things point to the fact that the disappearance of the premium has in any way been due to a reduction in circulation, or do they not still further point to inaccuracy in your statements?

Your "fact" that "the more the French reduce the volume of their currency, the more they seem to have," if it means to convey any idea, it is that the circulation of the Bank of France is being steadily reduced; when the real fact is, that while September 1875 it was \$469,000,000, it had on July 20, 1876, been expanded to \$500,000,000. But while a contraction in the circulation of the Bank of \$114,000,000 took place between Oct. 30, 1873, and July 20, 1876, between Jan. 1874 and June 1, 1876, France made by import a net gain of specie and bullion of \$358,000,000, of which between March, 1874, and July 20, 1876, but \$224,000,000 had been added to the Bank balance; leaving with the people \$134,000,000, or \$20,000,000 in excess of the total contraction of the circulation of the Bank. The enormous exports and imports to which *The Nation* refers have actually taken place in the face of a volume of circulating medium in excess of that previous to the war. According to the "laws of political economy" in which *The Nation* believes, the imports of merchandise should increase, and the exports decrease, because of "an inflation of prices," and the "superior currency," gold and silver, should be driven out of the country by the "inferior," paper; instead of more and more of the "superior currency" flowing into the country! But the *Nation's* "laws of political economy" will not work in this instance. Everything therein goes contrariwise. If these "laws" are so far shaken by the actual facts that *The Nation* has been obliged to make "facts" to suit the "laws," as well with regard to France as to Germany, we submit the question to all candid minds, Can you be justified in applying the epithets "the silver swindlers, and paper-money men, and the rest of the army of Jeremy Diddlers," to those who do not believe in your theories simply because they do not believe in them?

HENRY CAREY BAIRD.

PHILADELPHIA, Sept. 13, 1876.

APPENDIX.

[From the Nation, August, 31, 1876.]

THE LESSON OF GERMAN AND FRENCH FINANCE.

ONE of the most unhappy countries in Europe at this moment is Germany, and the reason of this unhappiness reveals in a striking way how little either victory in war or abundance of money can of itself do to bring about real national prosperity. Indeed, the lesson of Germany bears so pointedly on our own currency problem, that it would be fortunate for us if our inflationists could be got to look into it. Senator Logan mentioned, in one of the debates of 1874-75, that he had given a fortnight to the study of finance, and had, in

that period, through the great activity of his powerful mind, discovered that the views on currency of nearly all the great masters of political economy were curiously and completely wrong. If he will now turn his attention to Germany for even ten minutes he will come upon a state of facts which must prove puzzling even to him. Germany received after the war with France an enormous sum—about \$1,000,000,000 in cash—which was suddenly added to the existing wealth of the country, and was taken from France. Moreover, Germany had only suffered from the war through a year's suspension of industry, and the partial cost of maintaining 500,000 idle men and the waste of ammunition. Her soil had in no place been devastated by the fighting, and as her commercial marine is small, she had suffered but little in her trade from the naval superiority of her enemy. France, on the other hand, was ravaged over nearly half her territory. She had not only to maintain her own army, but that of her enemy. She had to suffer, in addition to the ordinary expenditure of successful and unsuccessful war, the frightful waste which attends the raising and equipping in haste of large hosts of undisciplined levies. In addition to the presence of a victorious invader, her trade and industry had to undergo the shock of a domestic revolution, and as soon as the foreign war was ended she found herself engaged in a civil one, of which her capital was the theatre. To crown all, she lost by the peace two of her finest provinces, containing a million and a half of her most ingenious and industrious citizens. According to the Logan School of Economists and Politicians, France could hardly be worse off or Germany better.

Now see what has happened. French exports and imports have never increased so rapidly and have never been so large in volume as during the past five years. The enormous taxation necessary to meet the increased burdens has not only been met, but the revenues have risen year by year so as to give a surplus. The volume of irredeemable paper has been so reduced as to bring it to par with gold, and to admit of preparations for specie resumption at an early date; and while this has been going on, the nation has been actually passing through an ordeal which, in all countries and in all ages, has been found most hostile to commercial confidence and progress, the foundation of a new Government on a soil wasted by war and revolution. According to the Logan School of Economists, what the French ought to have done in 1871 was to purchase a powerful printing-press and begin issuing Government notes, and keep issuing them and applying them to "the wheels of industry" until prosperity came back. There being no Logans in France, they did just the opposite. They began drawing in the notes they had issued and shut up the printing office, and went resolutely to work moving "the wheels of industry" by steam and hand power. They let the "money kings" and "the coupon clippers" have their own way. The other day a municipal loan of \$20,000,000 was offered by the city of Paris, and it has been taken fifty times over.

In fact, the more the French reduce the volume of their currency, the more they seem to have; the more they play into the hands of "the money-power," the more capital seems to find its way into the poor man's pocket.

Turning to Germany, we find that the first effect of the vast and sudden addition to the circulating medium of the country, caused by the payment of the French indemnity, was not to "lubricate the wheels of industry" at all. We believe, indeed, that it produced but a trifling effect on the production compared with the effect it produced on exchange. The only wheel it "lubricated" was the "wheel of fortune"—that is, its effects were those which, by an admirable social law, have always followed any large and sudden addition made to the circulating medium of a country by other means than honest industry. Money made by hard work enriches a country in the truest and best sense of the word. But money obtained by war, plunder, discovery of mines, or printing, seems to impoverish a community more or less rapidly. As soon as the French indemnity found its way into Prussian pockets, far from setting men to work harder, it, by raising prices, set everybody who owned anything

to thinking of selling out at an advance to somebody else, and made the slow gains of labor seem more paltry and distasteful than ever. It next set people to getting up stock companies and financial enterprises of all sorts, in order to take advantage of the general spirit of hopefulness, and to sell, in default of all else, the prospect of future profits. As money was easy and everything going up, everything went off at "an advance," and everybody felt himself growing richer every day; and, as all this came through war, war, even from the commercial point of view, began to seem an admirable practice, and Von Moltke, a sort of a merchant-prince as well as a hero, and Bismarck, a great operator who had given "points" to the whole country. Now, although the money which was "lubricating" people's imagination was hard cash, the pleasant dream only lasted a year or two. The collapse came in due course.

The rise in prices stopped, and then the fall in the speculative commodities set in, and there was the usual crop of failures and suicides, and the usual amount of painful disenchantment. The German people have lost their faith in Logan. They find that he is not the great thinker they supposed him to be. They would rather he had not studied finance for a fortnight. They wish he had taken up evolution or some department of natural science. They know that a mind like his must have some tough problem to work upon; but they think he ought not to plunge into subjects in which even his slight mistakes may bring misery to his fellow-men.

According to all reports, the depression now existing in Germany is deep and bitter. Not only do the people feel poor, but they begin to feel humiliated. Their commissioner at Philadelphia, Herr Reuleaux, apparently of French origin, has sent home a most gloomy report of the figure cut by German industry at the Exposition. He is a man of great experience in expositions, a professor in the Scientific School in Berlin, and a careful, cautious man; but he reports that the German display is cheap and poor, and comments with some severity on the tendency to reproduce Moltke, and Von Roon, and Bismarck in plaster, soap, and wax. In fact, he thinks the national genius has been made coarse, and clumsy, and slightly brutal by the national success; and while the home public is digesting these bitter truths, there comes the news that though the French loan has been, as we have said, taken fifty times over, a new Prussian loan of 100,000,000 thalers, though Prussian credit is and always has been among the best in the world, has been offered at 97 and $4\frac{1}{2}$ per cent., and yet only 24,000,000 of it have been disposed of. This is accounted for in part by the fact that the Prussian Government has been recently playing its creditors what they consider a scurvy trick, in calling in in 1872, without adequate notice, a loan which was only due in 1880; so that the many foreign bondholders, when they presented their coupons in 1874, found that they had lost interest on two years. But this in itself was only a product of the overweening confidence begotten by success too easily won, and by the receipt of money for which no value had been given.

There is nothing more curious or more encouraging than the way in which the laws of political economy are backed up by the laws of morals. The silver-swindlers and paper-money men, and the rest of the army of Jeremy Diddlers who are taxing their ingenuity to find out some seemingly honest but really knavish mode of discharging the national obligations, and in helping "the debtor class" to defraud its creditors, may find in the recent financial history of France and Germany some most fruitful suggestions as to the practical result of their schemes. The lesson it teaches is that there is no way in which communities can get out of difficulties but by honest labor and honest trading. Putting the pea under another thimble, calling an old thing by a new name or a new thing by an old name, finding a treasure, putting out more promises to pay, or taking other people's property, are devices which sometimes seem enormously profitable, but they are never profitable very long. The strong angel who stands guard over the springs of civilization takes care that human faith in constancy, and industry, and honesty, shall not be seriously shaken by the protracted success of any scheme or policy which promises wealth through idleness, or ease of conscience through tricks.

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CONTENTS.

CHAPTER I. LATHE AND MACHINE TOOLS.—Round-Nosed Tools; Square-Nosed Tools; Holding Tools; Side Tools for Iron; Front Tool for Brass Work; Side Tool for Brass Work. II. CUTTING SPEED AND FEED.—Tables of Cutting Speeds and Feeds; Table for Steel; Table for Wrought-Iron; Table for Cast-Iron; Table for Brass; Table for Copper. III. BORING TOOLS FOR LATHE WORK.—Boring Tool for Brass; Boring Tool Holders. IV. SCREW-CUTTING TOOLS.—Hand Chasing; To Make a Chaser; To Calculate the Gear-Wheels necessary to cut a Thread in a Lathe. V. GENERAL OBSERVATIONS ON LATHE WORK.—H. S. Manning & Co.'s Lathe Dogs and Drivers; Emery Grinders; H. S. Manning & Co.'s Centring Machine; Lathe Work; Emery Cloth and Paper. VI. TURNING ECCENTRICS.—Turning Cranks; To Chuck a Crosshead; Turning Pistons and Rods; Piston Rings; Ball Turning; Cone Plate for Boring in the Lathe; To Turn a Pulley; Turning and Fitting Tapers; Belts; Oiling and Greasing of Belts; Directions for Calculating the Width of Belts required for Transmitting Different Numbers of Horse-Power; Directions for Calculating the Number of Horse-Power which a Belt will Transmit, its Velocity and the Number of Square Inches in Contact with the Smallest Pulley being Known. VII. HAND TURNING.—Roughing Out; The Graver; The Heel Tool; Brass Work; Scrapers; Lathe Chucks. VIII. DRILLING IN THE LATHE.—Half-Round Bits; Cutters; Reamers; Shell Reamers. IX. BORING BARS.—Small Boring Bars. X. LAPS.—Allowance for Shrinkage; Crank Pins; Chucking Brasses; Slotting Machine Tools. XI. TWIST DRILLS.—Feeding Drills; Drills and Drilling—Flat Drills; Drilling Hard Metals; Slotting or Keyway Drills; Pin Drills; Countersink Drills. XII. TOOL STEEL.—Forging Tools; Tool Hardening and Tempering; Hardening; To Harden Springs; Case-Hardening Wrought Iron; To Case-Harden Cast-Iron; To Harden Malleable Iron; The Crystallization of Wrought-Iron; The Wear of Metal Surfaces: Annealing or Softening; Mixtures of Metals. XIII. TAPS AND DIES.—Adjustable Dies; Dies for Use in Hand Stocks. XIV. VISE WORK—TOOLS.—Calipers; The Square; The Scribing Block; Chipping, Filing; Emery Paper; Tools for Scraping Surfaces; Vise Clamps; Penning; Fitting Brasses to their Boxes; Fitting Link Motions; Fitting Cylinders; Scraped Surfaces; To Make a Surface Plate; To Cut Hard Saw Blades; To Refit Leaky Plugs to their Cocks; Refitting Work by Shrinking it; To Estimate the Weight of a Casting from the Weight of the Pattern; Grades and Speeds for Emery Wheels; Threads of Gas or Steam Pipes; Steam and Water Joints; To Make Spiral Springs; Hardening; Tempering. XV. FITTING CONNECTING RODS.—Drifts; Reverse Keys. XVI. MILLING MACHINES AND MILLING TOOLS. XVII. TO CALCULATE THE SPEED OF WHEELS, PULLEYS, ETC.—XVIII. THE SLIDE VALVE.—Movements of Piston and Crank; Steam Supply; To Measure the Throw of an Eccentric. XIX. HOW TO SET A SLIDE VALVE.—XX. PUMPS.—Suction Pumps; Force Pumps; Piston Pumps.—INDEX.

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